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CIRCULAR
April 7, 2004

REQUEST FOR COMMENTS

QUARTERLY STATEMENTS OF ACCOUNTS SENT TO CLIENTS

AMENDMENTS TO ARTICLE 7455

Summary

The Special Committee – Regulatory Division of Bourse de Montréal Inc. (the "Bourse") has approved amendments to article 7455 of the Rules of the Bourse, which deal with the mailing frequency of statements of accounts to clients. The objective of the proposed amendments is to reduce to four the minimum number of client statement of account mailings per year for all approved participants.

Process for Changes to the Rules

Bourse de Montréal Inc. is recognized as a self-regulatory organization (SRO) by the Autorité des marchés financiers ("the Autorité"). In accordance with this recognition, the Bourse carries on activities as an exchange and as a SRO in Québec. In its SRO capacity, the Bourse assumes market regulation and broker-dealers regulation responsibilities. The broker-dealers regulated by the Bourse are its approved participants. The responsibility for regulating the market and the approved participants of the Bourse comes under the Regulatory Division of the Bourse ("the Division"). The Division carries on its activities as a distinct business unit separate from the other activities of the Bourse.

Circular no.: 041-2004

The Division is under the authority of a Special Committee appointed by the Board of Directors of the Bourse. The Board of Directors of the Bourse has delegated to the Special Committee – Regulatory Division its powers to approve or amend some aspects of the Rules and Policies of the Bourse governing approved participants, among which, the Rules and Policies relating to admission as approved participant, approval of persons, disciplinary matters, management of client accounts and operations. These changes are submitted to the Autorité for approval.

Comments on the proposed amendments to article 7455 of the Rules of the Bourse must be submitted within 30 days following the date of publication of the present notice in the bulletin of the Autorité. Please submit your comments to:

*Ms. Joëlle Saint-Arnault
Vice-President, Legal Affairs and Secretary
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Quebec H4Z 1A9
E-mail: legal@m-x.ca*

A copy of these comments shall also be forwarded to the Autorité to:

*Ms. Anne-Marie Beaudoin
Director – Secretariat of L'Autorité
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Quebec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca*

Appendices

For your information, you will find in appendices an analysis document of the proposed rule amendments as well as the proposed regulatory text. The implementation date of the proposed amendments will be determined, if applicable, with the other Canadian self-regulatory organizations following approval by the "Autorité des marchés financiers".



QUARTERLY STATEMENTS SENT TO CLIENTS

- AMENDMENTS TO ARTICLE 7455

I DETAILED ANALYSIS

A) Current Rules

Under the current rules of Bourse de Montréal Inc. (the “Bourse”), approved participants must send account activity statement to their clients at the following intervals:

- on a monthly basis where there is an open position in futures contracts or options on futures contracts in the account [paragraph B of article 14154];
- on a monthly basis where a transaction (excluding dividend and interest payments) has been recorded during the month [paragraph 4 of article 7455];
- at the end of each calendar quarter where there is either an open security position or money balance in the account [paragraph 4 of article 7455]; and
- at the end of each fiscal year for external audit purposes where there is either an open security position or money balance in the account [paragraph A) vii) of article 7165].

B) The Issue

For some approved participants, the end of their fiscal year is different from the end of a calendar quarter. Because of the requirement to send out statements on a calendar quarter end basis and the requirement to send out fiscal year end statements for external audit purposes, these approved participants end up sending a

minimum of five set of statements each year to all their clients with money balances and/or security positions.

For approved participants, these statement mailings are expensive and there is limited benefit to the client in receiving a statement more than four times a year if no transactions have taken place in the account.

C) Objective

The objective of the proposed amendments to article 7455 of the Rules of the Bourse is to reduce to four the minimum number of client statement mailings per year for all approved participants.

D) Effect of Proposed Rules

As mentioned previously, the objective of the proposed amendments is to reduce to four the minimum number of client statement mailings per year for all approved participants. This will result in no change for approved participants with fiscal year end dates that occur on a calendar quarter end. However, this will result in a reduction in the minimum number of statements sent to clients each year for approved participants with fiscal year end dates that do not occur on a calendar quarter end from five to four, provided certain conditions are met.

The proposed amendments will not change the current requirement to send a statement to a client on a monthly basis where there is an open position in futures contracts or options on futures contracts in the account or where a transaction has been recorded during the month. The proposed amendments also retain the requirement to send statements to clients on a calendar quarter end basis when this date is not in close proximity of the approved participant's year end date. Retaining this requirement is necessary to ensure customers continue to receive statements as at December 31st to assist them with their income tax filings. Once the proposed amendments are effective (after

obtaining all the necessary approvals), an approved participant having, for example, an October 31st fiscal year-end could send the October month-end statement in place of the September month-end statement.

E) Comparison with Similar Provisions

In the United States, statements are to be sent to client at a minimum at each calendar quarter end. In the United Kingdom, statements are to be sent to clients at a minimum annually.

F) Public Interest Objective

The objective of the proposed amendments is to set the minimum number of client statement mailings per year for all approved participants to four. The proposed amendments will not impact market structure or competition between approved participants or with other firms. The annual costs of distributing client statements for the approved participants affected by the proposed amendments will be reduced. Consequently, the proposed amendments are considered to be in the public interest.

II COMMENTARIES

A) Effectiveness

The proposed amendments will make consistent the minimum client statement mailing requirements for all approved participants without materially affecting client access to account information.

B) Process

The first step of the approval process for the regulatory amendments proposed in the present document consists in having the proposed amendments approved by the Special Committee – Regulatory Division of the Bourse. Once the approval of the Special Committee obtained, the project is simultaneously published by the Bourse for a 30-day comment

period and submitted to the Autorité des marchés financiers du Québec for approval and to the Ontario Securities Commission for information.

III REFERENCES

- Rule Seven of Bourse de Montréal Inc.;
- Rule Fourteen of Bourse de Montréal Inc.;
- NASDR Rule 2340 – Customer Account Statements; and
- FSA Conduct of Business Rule 8.2 – Periodic Statements and Client Assets Rules 2.3 – Client Agreement and Client Statements.

7455 Confirmation and Statement of Account to Client

(06.11.89, 01.04.93, 29.10.93, 30.09.94, 02.08.95, 18.02.97, 26.03.03, 00.00.04)

[...]

- 4) A statement of account must be sent at the end of each month to each client in whose account there have been any transactions recorded (exclusive of entries related to interest and dividends). Additionally, statements must be sent four times per year to all clients having open security positions or money balances at the end of each quarter as of the statement date, with no interval between statements exceeding four months. ~~Quarterly~~ Statements must set forth the dollar balance carried forward and security position as of the statement date. Statements must indicate all securities which are segregated or held in safekeeping. In addition, exchange listed non-voting shares, subordinate voting shares or restricted voting shares must be designated as such on the statement and these shares must not be described as "common".

[...]